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As the reassessment program nears completion, *Aspects* is attempting to shift its emphasis somewhat to topics of immediate importance to Ontario assessors. This issue features a report on the 1974 Muskoka reassessment, about which there has been relatively little information to date. In addition, we offer a defense of market value that was prompted by an Ontario critic with an alternative valuation method, and a discussion of several recent church exemption cases. Also, we are initiating our new real estate section, appropriately enough with an interview with Mr. H. Kassinger, a prominent real estate developer in Oshawa.

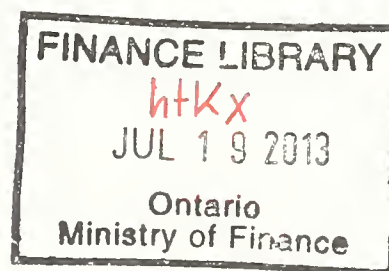
Plans for the next several issues include articles on open houses; possible changes in the Assessment Review Court; mortgage markets; rent controls; and public relations for the reassessment. We also will be reporting on the results of the Blair Commission's hearings on property tax reform, as well as summarizing the appeals training course for those assessors who were unable to attend the program. Finally, in *Aspects* #21 and #22, we will be discussing management in the Assessment Division with groups of commissioners and managers.

We hope these next few issues will be of interest and relevance to assessors. However, as the reassessment enters the crucial final phase, we are especially anxious to turn our attention to those topics of special urgency. We rely on you to identify those topics for us. Please let us know what you want us to publish. ☐

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estate

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ASPECTS INTERVIEWS

Mr. H. Kassinger
President, H. Kassinger Construction Ltd.

Mr. Kassinger was born and educated in Germany, and he came to Canada in 1952. After several years of subcontracting work, he began his first real estate development in 1955 in the Oshawa area. Since that time, he has built a number of subdivisions containing various kinds of housing. Perhaps his most notable achievement to date has been Rossland Park, a completely integrated rental development with townhouses, high-rise and garden apartments. Recreational facilities include a country club, two swimming pools, tennis courts, an equestrian centre and stables, and five acres of parkland; a day nursery is also provided. Rossland Park has received widespread acclaim for its beauty and amenities. Mr. Kassinger now is planning a new integrated development for Oshawa, which will include townhouses, semi-detached, and single-family homes. He is married and has three children. [Ed.]

ASPECTS: The *Toronto Star* recently described your Rossland Park housing project in Oshawa as "unlike almost any other rental development in the Greater Toronto area". For the benefit of our readers who are unfamiliar with Rossland Park, would you please describe the development as it is today? Do you plan any future expansion of the project?

MR. KASSINGER: Basically, what we are trying to do is provide the kind of housing for people that will make them feel it *is* their home. We want to make them feel at home. Because of the high price of single-family housing and the scattered development of apartments, I did see a need for developing a total area that we could set aside for the needs of people.

The basic philosophy is very simple. I believe that in the free enterprise system, the better service you provide, the more money you make. It is a selfish viewpoint in a way, but I do believe in the philosophy of give and take — if you give, you get it back. With the country club and other recreational facilities we have in our complex in Rossland Park, I believe that if we ever get into the competitive market — which I hope we do — we will have less vacancies

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than other similar developments. I believe that we have more to offer. And less vacancies will basically pay for the things we provide so that really everyone comes out ahead. We do not have any future expansion plans for Rossland Park because we have reached our allowed density. We do have future plans downtown, however. We have assembled land in three city blocks — about 40 old houses downtown. It has cost us about \$750,000 so far to assemble the area. It was to be a high-rise rental development, but because of all the backlash and criticism we have received, we have abandoned the idea and are now thinking in terms of luxury condominiums. The area is zoned C-3, which means we could build to a density of about 25 units per acre. It will be low density. Downtown we should have high density, naturally. But with all the opposition and red tape and frustration, I decided to leave it as it is, and not attempt to have the zoning changed.

ASPECTS: Is Rossland Park purely a rental development?

MR. KASSINGER: Yes, but we do have a mix of unit types to accommodate people. The complex consists of townhouses for families; one four-storey apartment building which is also for families with children; and a number of adult buildings.

ASPECTS: Do you believe that the “adults only” building is a coming trend in rental accommodation?

MR. KASSINGER: Yes, I do. Unfortunately, we do have more problems in buildings with children. It is a fact of life. There is definitely a lot more vandalism in a building with children than in an adults only building. It is our permissive society today. Perhaps it is no worse than it was yesterday. But, what will it be like tomorrow? And today, with a shortage of rental accommodation, the landlord is in an advantageous position in terms of choosing his tenants. Basically, if an apartment owner has a choice, he naturally takes the way of more money with less headaches. That is our system — it is quite natural. The only way to overcome this is to put more units on the market. To do this, there must be more incentive for the developer; and if there is no incentive, there will be no more units on the market. The government can't build them. So until the shortage is eased, I do think that more and more rental units will be earmarked for adults only.

ASPECTS: Rossland Park is especially interesting because it obviously reflects a certain philosophy on your part. How do you, as a developer, approach your work? What do you see as your roles and responsibilities in the community?

MR. KASSINGER: I do feel that I am responsible to the community. And the community as such has been good to me. I have had good relationships with all levels of government, particularly with the provincial government. I have never had any problems. But this is only because I have proved that I can be trusted to do what I say I will do. I think government officials have confidence in me. This is the essence of my philosophy, as I said, that “you have to give before you can receive”. From a pure investment point

of view, sometimes a particular project does not seem to make economic sense, but I always try to look at the long-range future of a building or project, like Rossland Park, and then decide if it makes sense to build, for both myself and the community.

ASPECTS: As we are all aware, the housing industry is in a state of crisis in Ontario — and indeed, throughout North America. In your opinion, what are the root causes of this crisis? Do you feel that either government or private industry is largely to blame — or are both at fault?

MR. KASSINGER: I don't think anybody could answer that question completely. I will try to give my philosophy and my thinking on it. We have two housing crises in North America today. One is shortage, the other is over-supply, and both of them affect costs. I would like to use the situation in the United States for comparison. In most states of the United States, the red tape involved in housing is about one-tenth of the red tape we have here in Canada. And there you still find single-family houses for around \$34,000 a unit, including land. Sometimes they sit for a year or more before they are sold, because there is an over-supply in the U.S. and the demand is not there. This is not the case in every state, but in affluent states like California, Florida, and Nevada, it is happening. There is an oversupply of housing units and consequently, prices are really down. It is tough right now for a developer in the States to make money in housing. To me, this shows that the free enterprise system has inherent safeguards and is perfectly capable of working according to the laws of the market without harassment from government. Competition exists, and society benefits. Now here in Canada, the housing crisis is one of shortage; and I think the cause of our crisis is the policies of our three levels of government. Let me illustrate what I mean. When I started in 1953 here in Oshawa, I could assemble and develop land with relatively little money, because at that time I only had to pay a \$200 or \$300 service charge per lot, for wood clearing and gravelling. All of the underground services were paid through local improvement taxes, which is only a way of financing, more or less. Then municipalities began to adopt a policy of “let the developer pay for all the services”. At the beginning, they wanted \$1,500, then \$2,000, then \$4,000, then \$6,000 and now \$14,000 per lot for servicing costs. It all started very innocently; but eventually the small developer — the backbone of the real estate business — was cut out because he just couldn't come up with the capital or the credit to develop, and it became a game of the big companies. It is popular for politicians today to say that the land is in the hands of so many development companies. I say, don't blame them; the responsibility for that must be placed on government, not on the industry. So today all of the blame has been put on the developer and on the builder. They say we have made excessive profits. But if a company goes bankrupt, it is not mentioned — and many *have* gone bankrupt. On top of service charges, the municipalities started to charge imposts or levies. I think the same thing is happening in municipal government as has happened already in the provincial and federal governments. The politician who is trying to retain his office has to count votes, and one thing which is very unpopular in municipal government is striking the mill rate for local taxes. So if they can say they will take a bigger chunk from the developer so they don't have to raise taxes, they look good to voters. But what really happens is a drastic rise in the prices of housing units due to

a shortage of building. And this shortage is created by a) not enough people in the business, and b) an almost impossible amount of red tape. Today, a developer has to be an expert in understanding all three levels of government in order to get through this red tape and get a development going. This is extremely frustrating, so less people are going into the development business. That has meant a shortage, so prices have gone up and the speculators have come in. And they, really, are responsible for the increase in land prices. Now the professional speculators couldn't have come in if land had been available and approved at a faster rate. Even rental units are affected by high development costs and excessive red tape. As an example of high costs, the City of Oshawa and the Durham region recently added a levy of \$2,700 per housing unit, regardless of whether it was a single-family home or an apartment unit. So now a developer who is building new housing units must pay those levies, and then the rent of a unit has to be set according to the cost of building that unit. This means that new units coming on the market today must have a minimum rent schedule of \$380 per 2-bedroom apartment. I think this will cause a big slow-down in rental construction, because at the moment developers can't afford the high costs of building. The resulting shortage will mean that older rental units will cost more. So the politicians aren't doing anybody in their municipalities a favour; all they are doing is creating inflation in housing.

ASPECTS: What do you feel are the most appropriate solutions to the housing crisis?

MR. KASSINGER: Very simple: cut government red tape. For example, Oshawa is in the region of Durham. When regional government was established, another tier of government was created, and things became very complicated. Oshawa has certain responsibilities, and the regional government has others. But they are still arguing with each other over who should be doing what, so the people of the region are caught right in the middle. We have two tiers of local government, as well as the provincial government and the federal government — each one with different programs which, I believe, hinder rather than help the effort to create proper and plentiful housing. For government at all levels, housing policy is improvised and inadequate — mostly piecemeal legislation. I think several things should be done. Municipalities are in a difficult position today because of the costs of administration, services, and education. The major item to be paid for through municipal taxes is education. If the provincial government would pay the majority of costs for schools, the local tax burden would be eased. That is one point. Secondly, I think the provincial and federal governments also should pay for trunk and extension sewers, because the municipalities haven't got the money to do so. They have to either issue debentures, which increases their indebtedness, or impose levies, which makes the local tax burden even heavier. If even half the money now spent on foreign aid were channeled into municipal needs, the burden would be eased on housing costs, and we could get on with the business of providing affordable housing for Canadians.

ASPECTS: What you are proposing, then, is a reallocation of government spending?

MR. KASSINGER: Yes. For example, what good are parks and conservation authority lands if people don't have a place to live? It doesn't make sense. Housing should be our number-one priority, and then the rest comes automatically. If we put the housing industry on a competitive basis again, the industry itself will provide all those amenities that you see in Rossland Park, and the government won't have to do it. If we developers have to compete for survival, then naturally we'll try to put the best product on the market for the least amount of money, and the public will benefit. That's the way free enterprise can work if it's left alone. Another factor is the approval system for residential building. It has to be simplified. Municipalities should encourage rather than discourage development. Right now, they are anti-development. The current antagonism between "the people" and developers must end. Developers face a great deal of hostility today, which is compounded by the long approval process — today developments must be approved by the Ontario Municipal Board. Many developers are asking why they should endure all these frustrations — they can make easier money elsewhere. And as I said, less developers means less housing. If the politicians don't recognize the folly of their policies soon, we are all going to be paying for their mistakes in the years ahead. The solutions are simple and can be made politically acceptable. To perpetuate the present system will result in disaster.

... TO RESOLVE HOUSING CRISIS: CUT RED TAPE, REASSIGN SERVICING COSTS AND RESTORE FREE ENTERPRISE ...

ASPECTS: What do you see as the probable trend of North American housing in the coming decades? Will the single-family residence be a thing of the past for most people? If so, what will replace it?

MR. KASSINGER: Perhaps I should speak specifically of Canada, because the market in the United States is very different. People who buy condominiums in the U.S. are buying luxury and extra services. They are more expensive than detached homes. If you want to buy a low-cost unit in the States, it is a single-family home or a duplex, not a condominium. But the reverse is true in Canada today. The reason condominiums have been successful recently is the simple fact that there is nothing else available. Now, I cannot believe that families prefer to buy high-rise condominiums in which to bring up their children. The future of a condominium is an unknown factor — management changes hands, there are no set regulations, other owners in the building may not maintain their units well, the overall quality and value can go down quickly. But people with low or medium incomes buy condominiums today for economy, not for luxury. And because their future is so uncertain, I don't see condominiums as a viable long-term solution to the housing needs of these people. But because there is nothing else available at the moment, they are the only alternative. Also, a number of people have bought condominiums for speculative reasons. They hope to sell them a year later for a big profit. But this trend is beginning

to backfire now, because the bottom is dropping out of the market. So less people will buy condominiums in order to make a profit. Personally, I do not believe in condominiums except as luxury units and for people who want the convenience of having somebody else look after their property. But for the vast majority of people, I feel that single-family units will continue to be the best alternative. The situation may get worse before it gets better. But I believe in our democratic and free-enterprise systems, and I think eventually we will find the solutions. After all, with the millions of acres available in Canada for housing, why shouldn't the average lot be 5,000 square feet? If the housing industry is allowed to operate freely, the situation will improve.

ASPECTS: So you really don't feel that the single-family residence is becoming obsolete?

MR. KASSINGER: No, and as a matter of fact we are planning a single-family development right now. It will be a huge area with medium and luxury single-family units, because I know that within three or four years they will be in high demand.

ASPECTS: Right now the real estate market has slumped somewhat from its peak period several years ago. Do you think prices will go up again in the same way that they went up in 1973 in the Metro Toronto area?

... RENT CONTROL IS SELF-DEFEATING – IT REDUCES DEVELOPMENT AND JACKS UP RENT ...

MR. KASSINGER: No. Again, if competition is allowed, the prices will not rise as quickly. Free enterprise can do almost anything better and less expensively than governments. As soon as government realizes this and stops attaching so many strings to us, we will be able to do the job we want to do. I think it is possible.

ASPECTS: You have developed rental accommodation as well as privately-owned homes. There is currently a great deal of turmoil in the world of landlord-tenant relationships. What are your expectations and responsibilities as a landlord? Do you see any way of resolving the often conflicting interests of landlords and tenants in general?

MR. KASSINGER: It is unfortunate that some landlords have been accused of "gouging" their tenants. But when you really look closely, there are only a few isolated cases. I know of many apartment buildings in Toronto owned by big development companies that have not increased their rent very much. All they have done is go up to a realistic level from an investment point of view. Why should an investor settle for a 2% return on his investment when he can get 10% buying bonds? That is what a lot of apartment owners are getting: a 2%-3% return on their investment. We are operating right now on a net profit of 4% in Rossland Park. If I sell Rossland Park and invest the

money in bonds, I have 10%. Now, why should real estate developers be expected to earn a much smaller return than any other investors?

ASPECTS: But there seems to be an essential problem there, in that people who rent, as opposed to people who are paying a mortgage, are not building any equity in the long run on their investment of monthly rental. So tenants really gain nothing, unlike homeowners and developers. And now rents have escalated to the point that some people simply cannot afford to pay them and still have something left over for other types of investment.

MR. KASSINGER: Rents have escalated because of inflation, which is not the landlord's fault. The banks have increased the bank rate to 11½% and 12% simply because of inflation. Seven or eight years ago, the federal government let the bank rate float. At that time, it was 6½%, and that was the beginning of our current inflationary spiral. Now this move didn't increase the value of our money, but decreased it. Our dollars buy much less now. Instead of paying \$20,000 for a house, now we pay \$40,000, which cuts our purchasing power by half. And in order to keep affluent and fluid, mortgage companies and banks have had to charge high interest rates. It is a very simple economic matter.

ASPECTS: Do you think rents are going to continue to go up at the same kind of rate we are seeing now?

MR. KASSINGER: Whether they are going to continue going up depends on the inflation levels and on the supply of housing. And, as I mentioned earlier, rents have not kept pace with inflation until recently. They are just catching up now. In Toronto, a lot of building owners kept their rents very low until about two years ago, because they were competitors in a reasonably uncrowded market. About three years ago there was a 4% vacancy rate in Toronto rental units, and now we have maybe a .5% rate. So one reason for higher rents is because we have a shortage. But the shortage was created by inflation, by anti-development council policies, by frustrations among developers, and by growing financial obligations like high interest rates. Rents will continue to go up according to the rate of inflation, and I don't see an early end to it. Rental housing is still the cheapest accommodation today, compared to house or condominium ownership. For example, take a 2-bedroom apartment. If you buy it for \$35,000 (which is a low price today, I believe), you pay a minimum of 10%-11% mortgage interest, plus principal, taxes, and upkeep. So you are talking about \$500 a month. But if you rent that apartment, today it will cost you no more than \$350 a month. That leaves \$150 a month for savings or investment, which is \$1,800 a year. That is more than the equity you could expect on a condominium in the long run. Tenants are not as badly off as they sometimes imagine.

ASPECTS: Last year the Ontario government instituted rent controls. Perhaps it is too early to tell what the long-term effects will be, but at this point what are your thoughts about controls? Will they be good or bad for owners and tenants?

MR. KASSINGER: Rent controls will be bad for everyone, but tenants will suffer the most, I think. In Ontario, an annual 8% increase has been authorized. For the landlord, that's beautiful. Most of us haven't raised our rents by that amount from year to year. Last year the general increase was 6% for the first time. Now the government says we can raise rents by 8%. So of course almost all landlords will raise rents the maximum amount! Furthermore, by not linking the increases to the rate of inflation, future development will be severely hindered. I'm not just speculating about these effects, either — we have solid examples. In Vancouver, where rent controls were legislated, the rents are outrageous and there's a terrible shortage of housing. Landlords find ways to get around the legislation, too, in order to make ends meet. A common practice is to provide a piece of furniture or some old broadloom in an apartment and charge a flat amount (as much as \$2,000) for it. So rent control will do two things in the long run: scare away potential developers and compel owners to raise rents to the maximum levels allowed. Eventually, the government will be faced with the necessity of building new housing, because free enterprise won't do it under such conditions. That, too, will hurt tenants, because whenever the government does something it costs three or four times as much as private enterprise. The money has to come from somewhere, and it's always the taxpayer's pocket! I am very much opposed to rent controls. Government control of an economy has never worked in any nation at any time. Why do we think it will work now? Somebody has got to pay the price, and it's a high one.

ASPECTS: As you know, the Province of Ontario is in the midst of a reassessment program. By the end of 1977, all properties will be assessed at market value. How do you view this program?

MR. KASSINGER: I think there are going to be problems in assessing rental apartment buildings at market value. What is the market value? Who is going to decide? If I haven't sold a unit here in Rossland Park, how do you know what it would sell for? There's nothing to compare in that situation. Now if you have the assessment tied in with the rental income and you calculate a realistic ratio, that would make sense. But it won't work for a market value approach. Market value assessment will work on single-family homes and other properties that sell. But even there I can see problems. There will be a lot of turmoil and dissatisfaction among homeowners because their taxes will go higher. Right now homes are assessed on a "bricks-and-mortar" system. If the inflation rate keeps going up, which it will do for the next few years, the market value of homes also will keep going up. I don't think the failure of assessment to reflect accurate property values in the past is a fault of the system, the "bricks and mortar" method. I tend to think it is just sloppiness in developing the rates and using the system. If you have a manual and you apply uniform square foot rates for different items, the system should work. You should be able to apply these rates to any unit, along with the appropriate age, obsolescence and other factors, and arrive at an assessment value. And if the valuation is proper, it will be relative to the market value. The only thing that changes is the mill rate. I can't see any useful benefits to be achieved by doing market value assessments.

... REPLACEMENT COST APPROACH WILL BETTER REFLECT THE VALUE OF INCOME PROPERTIES ...

ASPECTS: What about income-producing properties? Often a cost approach does not reflect the true value of these properties. Do you think an income capitalization method of valuation is appropriate in these cases?

MR. KASSINGER: Perhaps — but even here a proper replacement cost approach is going to be better. For instance, I will give you an example. With the present cost manual, we are paying less taxes on a townhouse than on a 2-bedroom high-rise apartment! Now, under a market value or a realistic "bricks and mortar" approach, the situation would be the opposite. A townhouse costs more to build and involves more land. So the land value for a townhouse should be more than the land value for an apartment. But under the present assessment system, it's the other way around. The taxes on the 925 units in Rossland Park are about \$503,000, which is almost double the income we get from those units. Under the circumstances, no one should be surprised when landlords are forced to raise rents!

ASPECTS: The relationship between government and private developers has become increasingly complex in recent years. Government approval and cooperation are required for many aspects of building development. Do you believe that most government activity in the area of building is warranted or does it tend to frustrate and complicate the industry as a whole?

MR. KASSINGER: Government involvement in the building industry at this time is excessive, frustrating, and mostly unwarranted. And, as I said before, the end result of government meddling is higher housing costs. For that there is no one to blame but the government. The more controls you impose on something, the more expensive it becomes. Instead of all the red tape, I would like to see the government come up with a plan to encourage housing development. A set of guidelines should be issued which must be followed by all municipalities. To ensure compliance, the guidelines should be tied in with the grant system. If municipalities follow proper development policies, they get grants; if they are anti-development, they don't get the grants. I think this kind of action would go a long way toward ending the current anti-development mentality. Other than providing the guidelines I mentioned, government's only legitimate control is to provide general building codes. As it is, you have to go through years of negotiations and red tape to get to the building stage. And the actual physical creation of the building is easy compared to what you go through beforehand. As a matter of fact, when actual building starts on one of my projects, I cease my active involvement because I know that from then on, there will be few interruptions. Any problems that we have with construction are easily solved. But it's getting to that point that's the big headache today.

... THE GOVERNMENT SHOULD ENCOURAGE
HOUSING IN MAKING THE BEST USE OF
INDUSTRY RESOURCES ...

ASPECTS: So would you say, in conclusion, that the best way of eventually reconciling the rather diverse and sometimes opposite interests of government, the public and the development industry, is for the government to retreat in favour of less restrictions on private enterprise?

MR. KASSINGER: Not entirely. Reduce the level of red tape, yes. But the biggest culprit in today's housing story is the municipality, which often has no choice but to be difficult. Municipalities are responsible for representing the needs of the people of their community, and we in industry are responsible for giving them a reasonable level of services. New development does add to the burden, so municipalities do need help from the provincial government, either through grants or through another form of revenue. That's what it boils down to. But the provincial government's approach has been to create dozens of new agencies and new regulations. Frankly, a person has to be crazy to go into the development business today. I am in it because I like it; it's my job and my profession, and it's too late for me to turn around and start again. But I could never start

today with the resources I had in the past. It would be literally and physically impossible to create Rossland Park today; I wouldn't have the money. And it wouldn't be approved because of all the regulations and financial obligations. We are starting a new subdivision now. It's a completely mixed development of single-family, semi-detached, and townhouse units. We created 21% tree and park space, which is more than the 5% required. We have a higher density than is normal for singles, but each one has its own lot. Now I had cooperation from the provincial government all the way. But when it came to the municipal and regional levels, we got bogged down, and that's where we're stuck now. We have to settle certain things, certain requirements they have that I cannot fulfill. So everything has come to a halt. Also, there is the monetary question. Service costs keep on rising. I have arranged financing for the development, but I don't know how somebody else would do it. It would be impossible for the average developer. So in conclusion, I think the government does have a very important role to play in providing Canadians with housing. We have so much land and so many resources available in this beautiful country. We are not overcrowded. I firmly believe that with all the resources we have, the government's proper role should be to encourage their development to the benefit of all Canadians. I think the politicians should look at themselves to find out what is wrong. They are to blame, not the people of Canada. We in private industry have the solutions to Canada's housing crisis — it's up to the politicians to let us utilize them. The place we have to start is with the politicians. □



△ Manager Des McAdam (seated at desk) has just informed a happy staff that retroactive pay cheques are on the way. Roy Kelly (on phone) passes along the good news to his bank manager. (Left to right) Ed Hammings, Ivan Copper (seated), Peter Bishop, Roy Kelly, Don Chantler, Des McAdam, Larry Boomhour, Wayne O'Hara.

ASSESSING THE REASSESSMENT: Aspects visits the Muskoka Regional Office

What will be the outcome of market value assessment in Ontario? Ever since the reassessment program began in 1970, tentative and speculative answers have been offered to this question by virtually everyone connected with assessment. Obviously, the answer will differ — to some extent — in the different regions of the province. But in an effort to provide our readers with some specific information that is available, *Aspects* recently visited the Muskoka office to find out what happened when that region returned its roll at market value in 1974.

"Ontario's playground"

Muskoka has been referred to as "Ontario's playground". It is the prime recreational area of the province, with a heavy concentration of cottages and resorts around its numerous lakes and rivers. In fact, tourism is the main industry of the Muskoka region, since the area is attractive for both winter and summer sports enthusiasts.

Approximately 1,660 square miles in area, Muskoka has three major towns: Bracebridge, Huntsville and Gravenhurst. The population of the region is 33,450. There are 27,639 residential (including cottages), 1,430 commercial and industrial, 574 farm and 21,295 vacant properties.

A political decision

On March 1, 1974 the entire region of Muskoka was returned at market value assessment — the first and only region to do so since the provincial takeover of assessment in 1970. (The Bruce-Grey region has been returned completely, except for Owen Sound.) For a variety of reasons, Muskoka was scheduled to complete its reassessment before the rest of the province, but the original date was moved ahead six months. Essentially, the decision to do so was a political one, prompted by complaints of inequitable and non-comparable assessments from two neighbouring resort owners.

However, a review of the situation indicated that there were other valid reasons for moving the reassessment ahead. Among them was the fact that Muskoka had never been generally reassessed at market value prior to 1974, so that its values were perhaps less accurate than in other areas. A more important reason was that Muskoka had gone to regional government in 1971; 25 municipalities were reduced to six, and three unorganized townships were incorporated into the district — thus bringing some property owners into the municipal tax base for the first time, and necessitating considerable reorganization of municipal

financial procedures. Much of the region was unserved, and 26 different assessment systems existed, resulting in considerable disparity in both assessment and taxation. Because of these new factors, the government decided that an early reassessment was the best way to deal with the region's fiscal needs.

Setting the reassessment stage

Once the decision to reassess was made, swift organization was imperative. Regional assessment commissioner Robert Veitch was informed of the decision in mid-summer 1973, with the program scheduled to begin in September 1973. He immediately mobilized his staff to determine what had been done and what had not, and to make preparations as quickly as possible.

It soon became apparent that outside help from other assessment offices would be essential to the completion of reassessment by the deadline. Muskoka is the smallest office in terms of staff (16 assessors and 2 managers); in addition, there were certain essential preliminary tasks that had not been completed, the two most important of which were mapping and land value analysis. Therefore, assessors from a number of other offices were sent to Bracebridge for up to eight weeks. Hamilton and St. Catharines assessors worked on land values, those from Whitby and Trenton on mapping; Metro Toronto offices assisted with coding; and Barrie assessors helped with appeals.

Key priorities

The two key priorities were land values and maps. Land values for commercial and industrial properties were completed already at 1972 levels, so the emphasis was placed on residential properties. Assessors from outside offices computed the land values, and the subsequent analysis was performed by Muskoka assessors. According to Desmond J. McAdam, then commercial/industrial manager and currently one of the two geographic managers (Muskoka went to a geographic organization in January, 1976), land values for resorts then were calculated using residential land analysis as the basis and adding a footage allowance for more intensive land use.

Mapping was the other major need. Mr. Veitch commented, "We had to start virtually from scratch on mapping. There were no maps to speak of at the time of the provincial takeover." A mapping supervisor was appointed in July, 1970, followed by one draftsman and one tracer. They made progress in creating proper maps, but were hindered by the remoteness of much of the region.

When the early reassessment was announced, Muskoka was assisted by mapping staff from several other offices. In addition, two Hamilton assessors helped to chord waterfront footages and to record acreages on the maps being produced. The concentration of effort on mapping resulted in 60% map completion before the reassessment, with emphasis on waterfront areas.

A mass production effort

Even as the preparatory work was being done, the revaluation process was continuing. Jim Brown, a P.A. 4 in 1974 and now a manager, commented, "Because of the deadlines, the reassessment was carried out on a mass production basis. One problem we faced was a perennial one —

there weren't enough valid sales for analysis. So we relied more on the assessors' judgment. And with some properties — for example, large acreages — we had to use the entire region as a neighbourhood for sales analysis."

Because of the time constraints, it was impossible to revisit every property before returning the roll — especially the properties that are remote and inaccessible by normal transportation. As many appraisal cards as possible were validated by personal inspection, and the rest were checked for major discrepancies in the office. At the same time, Mr. McAdam and his assessors were checking their commercial assessments, which had been based initially on sales, by application of the income approach.

Mr. Veitch stated that once land values had been developed and analyzed, the valuation process moved along smoothly and relatively rapidly. The proliferation of recreational properties in Muskoka meant that land values rose dramatically over a period of several years. After they were established, the task of placing final assessments on properties was accomplished with little difficulty.

The role of assessment services

The services section was also a busy place during the Muskoka reassessment. Services manager Norman Buller operated with a staff of eleven in 1974, including the three mapping personnel. Of the other eight, there were three assessment clerks (one working exclusively on deeds), two keypunch operators, one registry clerk, one supervisor of assessment clerks, and one casual employee (working in the registry office).

Computations and title-searching had begun long before the reassessment was announced, but neither task was yet completed. Once the deadline was set, help came from the Hamilton office for title-searching. As with mapping, the greatest effort was focused on the more valuable waterfront properties. The continuous job of doing computations had been handled by one clerk and one casual employee since 1971. During the reassessment period, the greatly increasing influx of data necessitated assistance from the central Ontario area office throughout the summer of 1973.

From October to December, 1973, two clerks and three casuels posted data onto approximately 61,000 data sheets. During approximately the same time period, 115,000 ADS cards were keypunched; 75% were done internally and 25% with the assistance of the four Metro Toronto offices. Mr. Buller estimates that there were 61,000 roll entries recorded. A total of 55,000 assessment notices were mailed on February 13, 1974. "Meanwhile", Mr. Buller said, "our deadlines for enumeration and other functions remained the same throughout the reassessment period. The services staff worked very hard alongside the assessors to get the various jobs done. And although there were some pretty hectic days, we managed to finish the work in good order and on time."

The services function was not completed with the mailing out of assessment notices, however. Later, clerical staff assisted at the open houses, and worked continually to amend the notices when errors were determined. Finally, after the open house and appeal periods, the clerks changed the assessment roll and readjusted the totals as necessary.

What were the tax shifts?

The Muskoka reassessment yielded the first concrete information about the kinds of tax shifts that might be

expected after the province-wide market value reassessment. And, according to Mr. Veitch, the shifts that actually occurred were basically what had been expected. Commercial, industrial, and resort properties went down, while residential, vacant, waterfront, and recreational properties generally shifted upward.

Mr. Veitch pointed out that residential properties near the major towns remained proportionately the same as before. Mr. Brown added that the general increase in residential properties was not uniform across the region. "In some areas, year-round residents had been favoured at the expense of cottage owners, in other areas it was the other way around," he commented.

In general, it was land values that increased the most in Muskoka. The most dramatic increases occurred on vacant land and large-acreage properties; for example, a 100-acre lot on an accessible year-round gravel road had been assessed at \$100 prior to 1974 — after the reassessment its value rose to \$6,000.

The public response

In general, said Mr. Veitch, public response to market value assessment was reasonably amiable. There were some complaints from property owners in remote areas, who objected to increased taxes without basic municipal services. And after the notices were sent out, Mr. Veitch

received several cheques for the amount contained on the notice; these of course were returned to the senders with an explanation. But aside from a few basic misunderstandings, most questions about the reassessment program were answered during the series of open houses that were held in the region.

Open Houses

An extensive program of open houses was scheduled for February, during the period between the mailing out of notices and the actual return of the assessment roll. Each open house was two days long, with assessors and clerical staff in attendance to answer questions, investigate problems, and make adjustments. Attendance was fairly heavy; the numbers at each open house are listed below:

Lake of Bays	83
Bracebridge	96
Huntsville	188
Gravenhurst	132
Georgian Bay	193
Muskoka Lakes	133

In addition, two region-wide sessions were held in Bracebridge on consecutive Saturdays, with 187 and 279 persons attending.

Mr. McAdam said that most people who came to the open houses were non-resident property owners rather than year-round residents. As well, a number of representatives for commercial property owners attended. Everyone who was interviewed agreed that the open houses were a useful exercise and resulted in a lower number of appeals. Many people came to find out about the reassessment program, and once they received a general explanation, relatively few had specific complaints about their own assessments.

Mr. Veitch feels that the key to successful, smoothly-running open houses is advance planning and careful coordination of roles. By utilizing both clerical and assessment staff, the Muskoka open houses were able to deal efficiently with large numbers of people, to correct many errors before they got to court, and to provide an accessible forum for the explanation of market value assessment to many bewildered taxpayers.

Appeals

However, the series of open houses did not solve all complaints connected with the reassessment. And in fact, as expected, the assessments on slightly under 10% of the properties in Muskoka were appealed to the Assessment Review Court. This was a significant increase in the appeal level for the region. At that time, there were no resident members of the ARC in Muskoka, so members had to be brought in from other parts of the province. Altogether there were 191 sittings of the ARC, mostly with two members hearing each case.

Of the 4,669 ARC cases, 33 were withdrawn; 899 did not appear; 522 were confirmed; 542 were allowed (mostly name and address changes, etc.); and 2,673 were reduced (many on the assessor's recommendations due to mechanical errors or property descriptions).

The majority of the cases involved residential, and more specifically, recreational properties. Most of the commercial appeals were for resort properties, Mr. McAdam commented. He said that resort owners will tend to complain



△ Well-trained assessors Roy Kelly and Ivan Copper (left to right) make tracks trying to get the reassessment program on the rails.



△ Once again we meet our transportation experts Roy Kelly and Ivan Copper, this time on the waterfront looking confused with Bob Veitch (back to camera). The topic of discussion is whether the reassessment program will sink or swim.

about some individual component of their assessment (such as one specific building), yet be satisfied with the total figure for the property. The town of Bracebridge appealed the assessments on three of the four town industries, and took one of them — Corning Glass — as far as the Ontario Municipal Board.

After the ARC sittings were completed, 149 decisions were appealed to the district judge. Of those, 18 were withdrawn; 26 did not appear; 6 were dismissed; 14 were disallowed for lack of jurisdiction; 30 were confirmed; and 55 were reduced. In addition, there were three exemption cases at the district court.

Only three cases were appealed to the OMB, including the Corning Glass property mentioned earlier. In the final analysis, Mr. Veitch believes, the court experience was a good one and was handled well by everyone concerned. Most of the adjustments were relatively minor, and the basic validity of market value assessment was upheld.

After 1974

Since the initial reassessment, Muskoka assessors have been working to maintain current values and to correct any basic flaws in their data base. The information from the reassessment has been an important tool in various tax-shift studies by TEIGA and Revenue. Now the Muskoka assessors are getting ready to return a new assessment roll with the rest of the province in 1977.

Reassessment in retrospect

"A round table discussion

How did Muskoka's assessors feel about the reassessment in 1974 and how do they view it today? To examine this perspective, four assessors participated in a round-table discussion of the program. Their comments are summarized below. The participants were Peter Bishop, Ted Brush, Wayne O'Hara, and Ross Terry, all P.A. 3's.

Citing various factors such as the existence of many different assessment systems and the inadequacy of equalization factors, all four agreed that a general reassessment was

imperative. However, they were not convinced that the manner in which it was carried out was a good one. Mr. Terry said, "Most assessors here felt that one municipality at a time should have been done." Mr. Bishop believes that pushing the timetable ahead by six months made it impossible to achieve the quality levels assessors would have liked; he pointed out that the acceleration did not allow for the proper completion of two key preliminary tasks — mapping and land value analysis.

The assessors agreed that bringing in help from other offices was absolutely necessary, but felt that the "borrowed" assessors were expected to do too much without adequate local knowledge. Mr. O'Hara commented, "Under the circumstances, it's not difficult to understand why the results of our land valuation analysis were considerably less accurate than desirable. For one reason or another, the importation of people and their lack of local knowledge hindered our final effort."

Other problems affecting the early reassessment were cited. Mr. Terry said, "We were much later than other regions in receiving training from head office on market value. And when we did get it, the concentration was on building valuation." Mr. Brush added that Muskoka assessors were told to concentrate on buildings for the reassessment, when in fact land value was the more important component. Mr. O'Hara mentioned the internal office organization in 1974, which didn't lend itself readily to the demands of the situation. The assessors felt that the present geographic organization would have been a much more appropriate vehicle for the reassessment program. As it was, according to Mr. Terry, the necessity to fill a daily quota of valuations precluded close attention on the assessor's part.

All four assessors were concerned with the quality of the valuations that were produced. Mr. O'Hara said that because of the urgency of the program, basic value rates were set by management, sometimes without correct adjustments for local value-influencing factors. According to Mr. Terry, this meant that the reassessment did not result in an across-the-board improvement in accuracy levels for all types of properties; he said that based on 1973 sales, accuracy varied from 93% to 62% in some municipalities.



△ Don Chantler (standing) patiently stalls irate property owner on the phone, while Lucy Neal and Larry Boomhour search frantically through public relations package for proper response.

The assessors commented that while property class inequities were redressed in 1974, regional disparities still exist due to land value discrepancies.

None of the assessors were surprised at the general nature of tax shifts caused by the 1974 reassessment. But Mr. O'Hara commented that little effort seemed to have been made to cushion the blow of these shifts from commercial/industrial to residential properties. On the subject of public information about reassessment, Mr. O'Hara said, "We have been very lax about informing the public as to the nature and aims of market value assessment. We conducted very successful open houses, but I think we all will agree that the public is still quite limited in its knowledge of market value and its impact as reflected in taxation." Mr. Brush added, "We should use the open house format more intensively. It would not only deflect many potential appeals, but also establish closer contact between the assessor and the property owner. We tend to shy away from this contact, but it would be good for everyone in the long run."

On the subject of appeals, Mr. O'Hara said that the 1974 ARC hearings were of mixed quality. "We had both good and bad chairmen, which is understandable since they were new to assessment. Since 1974, at successive courts the quality of decisions has improved considerably." Mr. Terry feels that perhaps appeal procedures are too lenient for the taxpayer, resulting in some unwarranted reductions. Mr. Bishop commented that the appeal system might improve if assessors were given some input into its development.

Finally, in looking back at the quality of the reassessment program in Muskoka, the assessors were again divided. Mr. Terry and Mr. Bishop believe that assessment quality was sacrificed for the political necessity of getting the job done quickly; Mr. Bishop added that because no orderly long-range plan had existed from 1970, "it was bound to be a haphazard effort, and the end result was very little improvement in the quality of assessments." Mr. Brush and

Mr. O'Hara disagreed. Mr. Brush maintained that the quality *is* better overall in Muskoka, and that while the reassessment "was not 100% correct, it was a good one under the circumstances." Mr. O'Hara commented, "The reassessment was done in the best possible manner given the demands on us at the time. We were given parameters and guidelines that perhaps were too restrictive to be ideal, but we produced a good product within the terms laid out by the powers that be."

Conclusion

It seems clear that while the four assessors were not totally happy with the 1974 Muskoka reassessment, they did feel that an exceptional effort had been made within the limitations placed on them. Any dissatisfaction they expressed with the final product stemmed from their concern to achieve the best possible quality of work. They agreed that whatever its weaknesses, the 1974 reassessment was an important step forward and has prepared them for the 1977 deadlines with at least a solid understanding of the nature of market value. Mr. O'Hara concluded, "Market value assessment has given us a much better basis for explaining our values to — and having them accepted by — property owners. That's a crucial step in the right direction. And I think the situation will improve even more in 1977."

In retrospect, Muskoka's assessors seem to feel that, while the early reassessment was perhaps over-hasty and caused some technical problems, in the long run the experience was a positive one. Mr. Veitch summed up the prevailing attitude of his staff when he concluded, "You could safely say that none of us in Muskoka liked the idea of an early reassessment in 1974. Yet now, most of us will admit that it was a beneficial exercise for us. We still have work to do for 1977, but we're in a much better position now to do an even better valuation job." □



△ (Left to right) Larry Boomhour, Barbara Hummel, and John Aucoin show commissioner Bob Veitch today's batch of appeals from the reassessment. "Keep up the good work", says Mr. Veitch. "We may be heading for a new daily record!"

Places of worship

The Presbyterian Church Building Corporation and the Assessment Commissioner for the Territorial District of Algoma, 3 O.R. 1973, 1007; 4 O.R. (2d) 773 & Uday Singh and the City of Sudbury, 8 O.R. (2d) 377.

Section 3 of The Assessment Act (R.S.O. 1970) provides for the exemption from assessment and taxation of churches and other places of worship:

'3. All real property in Ontario is liable to assessment and taxation, subject to the following exemptions: . . .

3. Every place of worship and land used in connection therewith and every churchyard, cemetery or burying ground. . .

b) The exemption from taxation under this paragraph does not apply to lands rented or leased to a church or religious organization by any person other than another church or religious organization.'

In most cases the problem of determining whether or not a place of worship is entitled to the exemption is not very difficult. However, on occasion it is necessary to resort to the courts for clarification. Two such cases appear below.

The first case, *The Presbyterian Church Building Corporation and the Assessment Commissioner for the Territorial District of Algoma*, 3 O.R. 1973, 1007; 4 O.R. (2d) 773, deals with the question of whether or not a closed church is still a place of worship. The facts of the matter are that the church and church lands were held by the land holding company of the Presbyterian Church in Canada. The congregation had dissolved and a "For Sale" sign was placed on the property.

The Assessment Commissioner held that in order for a church to maintain its status as a place of worship, active worship had to take place on the premises. In other words, "the word worship implies the necessity of perpetuating the activity of worshipping so that once worship ceased as an

activity, a place of worship ceased to be a place of worship".

The District Court Judge ruled that the church was exempt from taxation. He held that under section 3, paragraph 3, if in fact the building *is* a place of worship, there is no other condition required to qualify it for the exemption. If the Legislature had intended the exemption to apply only as long as the church were used and occupied as such, it would have imposed these conditions in express language as it does with some other exemptions under section 3, such as public educational institutions and religious seminaries. The judge cited the case of *Canada West Securities Corporation vs. City of Winnipeg* (1922) 66 D.L.R. 591; (1922) 1 W.W.R. 788, in which the court held that the actual continuous holding of services is not necessary during the period when one denomination is moving out and another moving into a church. While the building is not now used or occupied as a place of worship, it once was and still remains available to any religious denomination or group who might want to purchase it.

A somewhat different case is *Uday Singh and the City of Sudbury*, 8 O.R. (2d) 377. In this instance, the applicant set aside two rooms of his residence to be used exclusively for the religious and educational purposes of the Sudbury Sikh community. Members of the Sikh community have access to this portion of the house at all times and the rooms are not used by the Singh family as part of its living quarters. No rent is paid by the Sikhs for the space.

The judge dealt with three main questions. First of all, are the rooms a

place of worship? Secondly, was there recompense of any kind paid to Singh? Thirdly, could the Sikh community be regarded as tenants, therefore bringing the applicant under the provisions of section 3, paragraph 3(b) and making him liable to taxation?

Are the rooms a place of worship? The court said that the definition of a place of worship must be broad enough to include a place where individual worshippers may come from widely different places and be personally entirely unknown to one another. The rooms in question fit this test, and the acts and observations conducted therein fall within the common meaning of worship. The fact that these rooms are in a private home makes no difference. The rooms come within the exempting clause.

As far as the question of rent was concerned, it was found that no valuable consideration of any kind is paid. There was no lease; members of the congregation do not have exclusive possession and their use can be terminated at any time by the applicant. At most, they are licencees.

The question of tenancy was raised, but the judge ruled that in order to be adjudged a tenant as defined by section 1(r), the congregation had to be "an occupant and the person in possession other than the owner." To occupy means to take possession and it would be taking the meaning too far to say that the presence of the congregation in the applicant's house on Sundays or weekdays for prayer amounts to occupancy.

For these reasons the two rooms were held to be exempt from taxation under section 3 of The Assessment Act. □

DATA BASE

Revenue Minister Arthur K. Meen has been conducting a periodic media tour of the province in recent months. The purpose of the tour is to bring the workings of the Ministry closer to the residents of Ontario by establishing personal contact and promoting communication. To date, Mr. Meen has visited Hamilton, Kingston, Ottawa, Timmins, and Windsor.

A typical tour day might consist of a press conference; an appearance on an "open-line" television or radio program to answer questions from the public; an address to a civic group; and a visit to one or more Ministry branch offices in the municipality. Management staff from these Ministry offices generally accompany the Minister throughout the day.

On October 5, Mr. Meen visited Barrie and was interviewed on a syndicated CKVR television show, "Daybeat". This program was broadcast to fifteen northern Ontario towns. On October 7, he addressed the Welland Chamber of Commerce. Future visits to other locations are planned and will be publicized in the local media.

* * *

The need for better communication as expressed during the October, 1975 Mapping Supervisors' Conference has culminated in the creation of a periodic map information kit called MAP-PAK. The inaugural edition was issued in September and has been distributed to all mapping personnel, coordinators, senior management, and other interested agencies such as the Ministry Library.

It is hoped that MAP-PAK will provide a useful and accessible vehicle for the exchange of information among those in the Assessment Division concerned with the Assessment Mapping Program. It will be issued quarterly.

One feature of particular interest is the "forum", in which readers are encouraged to participate by submitting specific mapping questions, statements of opinion on mapping policy, descriptions of unique mapping innovations, or discussions on other topics of interest. In addition to the "forum", the Assessment Standards Branch will provide information on current Ministry policies, administrative procedures, and projects that may affect the Assessment Mapping Program. MAP-PAK also will contain articles on surveying, mapping, land registration, geocoding and computer mapping, land information systems, technical drafting, and mapping opportunities.

* * *

Effective July 6, 1976, a new career path has been created for reclassification of assessment support personnel into the property assessor series. From this date, an employee with two years experience as an assessment clerk, assistant to the services manager, draftsman, mapping supervisor, registry clerk, or supervisor of assessment clerks, plus successful completion of certain courses offered by the Institute of Municipal Assessors or the Appraisal Institute of Canada, may apply for vacancies in the Property Assessor 1 (Assessment Trainee) category. Promotion beyond this level will depend on work performance and completion of further training programs to fill educational needs.

Executive director P. G. Gillis said in his announcement that the new career path is "in keeping with the Assessment Division's efforts to effectively maximize the utilization of its human resources and to provide for an organizational structure which allows staff to progress along a defined career path. . ." Further information is available from the Personnel Services Branch.

* * *

The Assessment Division's head office should no longer be referred to as "801 Bay". After months of anticipation, the Assessment Standards Branch moved in October to 77 Bloor Street West in Toronto, following the Field Operations Branch, which moved in November, 1975. These two branches are located on the 18th floor, with the Executive Director's office on the 19th floor. Eventually, the entire Ministry of Revenue, with the exception of field offices, will be located at 77 Bloor.

* * *

As a result of dissatisfaction over the current method of apportionment in shopping centres, under Section 17(3) of The Assessment Act, a Shopping Centre Committee has been created to discuss possible alternatives. The committee consists of five people from the Assessment Standards and Field Operations Branches and four representatives from the shopping centre industry.

To date, the committee has met five times. A stratification method of apportionment has been developed and tentatively supported by the members. This procedure is now being tested on shopping centres in Metro Toronto and Ottawa.

* * *

Since it went into effect on April 1, 1976, the Fund for Employee Educational Development (F.E.E.D.) has reimbursed 64 Ministry employees for courses they have taken. Of the 64, 38 are men and 26 are women. Below is a list of courses taken:

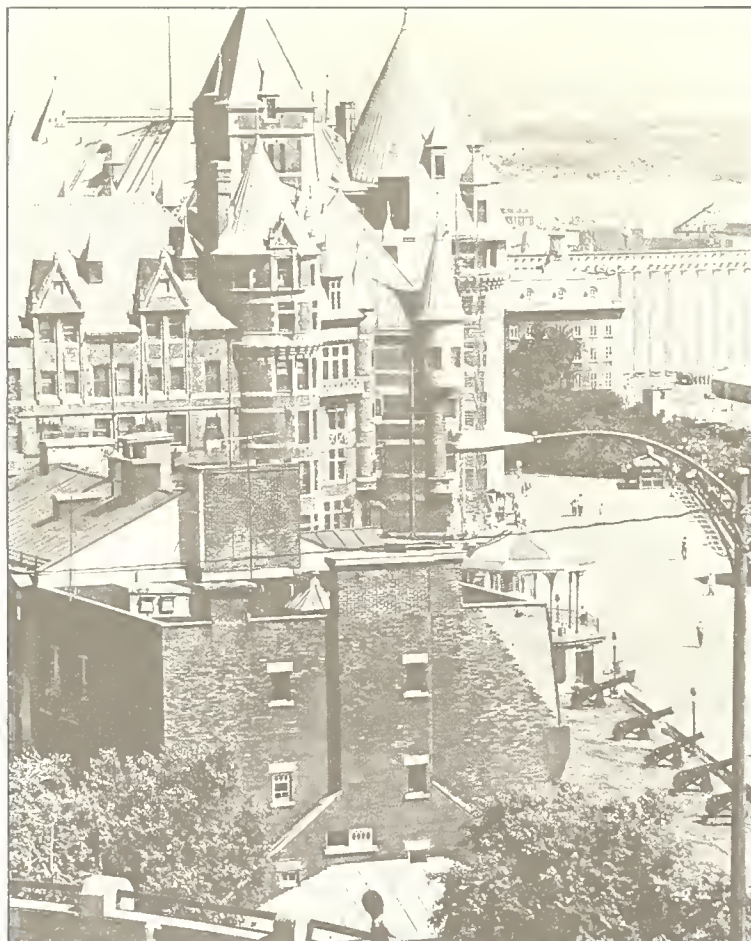
- Accounting
- Assessment Practices and Principles
- Appraisal
- Business Law
- Business Letter Clinic
- Business Organization and Management
- Dale Carnegie
- Economics
- Geography
- History
- Human Relations
- Law and The Assessor — Part I
- Management Accounting
- Mathematics
- Mechanics of Materials
- Political Science
- Public Speaking
- Real Estate Law
- Social Science
- Sociology
- Title Searching
- Transactional Analysis and Interviewing

The following is a breakdown of classifications of reimbursed employees:

Assessment Supervisor 1	1
Clerk General	21
Clerk Stenographer	2
Clerk Typist	2
Data Entry Operator	2
Data Entry Supervisor	1
Draftsperson	9
Filing Clerk	1
Property Assessor	22
Public Relations Officer	1
Secretary	2

The F.E.E.D. program is continuing and applications are invited from interested employees. At the end of one year, F.E.E.D. will be reviewed and evaluated before a decision is made whether or not to continue the program. ☐

Contemplating market value and ...



In defense of market value

LORETTA LARSEN

Loretta Larsen formerly worked for the Assessment Standards Branch researching market value techniques. She is currently continuing her education in biology at the University of Toronto. [Ed.]

From time to time, the concept of market value assessment is subjected to criticism on various economic, philosophical, or political grounds. Such a critique was aimed at market value recently by a resident of Ontario, and it is the intent of this paper to respond to the arguments he advances.*

"Unfair and antisocial"

Our critic argues that market value assessment is representative of "unfair and anti-social taxation." He suggests that this approach to assessment stems from a "strange tax philosophy" because until a property actually sells, the market value is an unrealized sum of money. He calls market value assessment a "negative incentive" because it penalizes the owner for cosmetic improvements to the property, such as landscaping. Generally rising taxes in Ontario and the advent of market value as a new concept in property assessment might imply a connection between the two.

He further argues that the increased tax burden will force some property owners to sell in certain areas, and

*The author wishes to thank Jim Hunt and Pat Donovan of the North York Assessment Office and Leslie Gyongyossy of the Field Operations Branch for their assistance in the preparation of this paper.

emphasizes the effects of this burden on people with fixed incomes. Therefore, the focus of his argument is directed against market value assessment for being "unfair" and "speculative in nature".

He also offers an alternative to market value assessment. This alternative method would assess a property at the present dollar value of the last selling price plus the cost of any improvements to that property. It is felt by our critic that this initial investment indicates the owner's ability to pay taxes. The concept of a person's "ability to pay" is one of the main points of his argument, as he states that it has been the basic approach to taxation in the past.

The philosophies of taxation

In order to discuss these comments on market value assessment adequately, one must refer to the philosophies which are the foundation of taxation as we experience it. Three of the basic individual rights which have gained general acceptance in modern Western society are: "equal treatment before the law", "the right of the individual to earn, own, and dispose of private property", and "the right of the individual to a minimum level of economic and social well-being".¹

"...because taxation so ultimately affects every individual and because it is heavily dependent on administrative processes, the achievement of strict equity in this field poses an unusually severe challenge."²

Far beyond any other characteristic, a tax system must be equitable. This means "equal treatment of equals" and

also, "the unequal treatment of unequals".

"...the principle of equal treatment of equals has two broad dimensions. First, it is a bulwark of protection against arbitrary and capricious treatment by tax authorities. Second, it provides the principal cornerstone on the basis of which taxes can be justified."³

The principle of equity

The purpose of assessment is to provide equitable valuations of the taxable items, in this case real property. Through equitable assessments, a solid foundation is developed from which taxes can be extracted. Without a method of assessment that adheres as closely as possible to the principle of equity, taxation would become a rather arbitrary and meaningless exercise. All citizens must be treated with equal objectivity when the worth of their property is assessed. It must be remembered that the property tax is a tax on property, not people.

This is of such vital importance because it allows the municipalities to determine the allocation of tax payments with confidence that each person's position is fairly represented. Beyond equity in assessment, it is within the power of each individual municipality to determine the mill rate and the tax concessions which will be implemented. These questions are within the realm of taxation and have no place in assessment. The primary function of assessment is that equals and unequals be treated as such.

Our critic's points concerning a person's ability to pay are certainly pertinent to any discussion on taxation. These matters and the ideas behind benefit taxation have been laid out in the Report of the Ontario Committee on Taxation prepared in 1967. They suggest and discuss the various possible measures of "ability to pay". These issues are certainly important and should be investigated with serious thought. However, they are not relevant to assessment, but concern taxation. It is the tax laws which must be altered or written in order to accommodate these principles, rather than the equity contained in assessment.

Market value defended

The discussion will now be turned to market value assessment itself. Our critic has offered an alternative approach to this method which he feels is fair and socially-sensitive. In this paper, market value assessment will be defended with the results of a study done on forty-nine properties in a carefully chosen neighbourhood in North York. Hopefully, these results will show that market value assessment is the most equitable and fair method of placing a value on a property.

All properties in the study are located on the same street and extend over four blocks of that street. They are all fairly comparable in size, being either average bungalows or two-storey houses, built in the 1930's and 1940's. According to the expertise of real estate agents and assessors who have worked in this area for a number of years, we are dealing with a homogeneous group of properties which were well-built and therefore are still active in the housing market. Many of the original owners still occupy these homes. The area represents a standard middle-class section of Metropolitan Toronto.

Please refer to the lists of data at the end of this paper. The first column supplies the numbers of the houses on the street. These will be used in the following discussion to identify the various houses. The next column gives the date and amount of the last sale. The third column of figures represents the updated assessments as of the end of 1974; these are not final assessments. The fourth column was added for interest. It contains the value of the last sale, given in column two, as of the end of 1974. The indices applied to these sale prices were derived from a study of the general trends in property prices for that area. A year-by-year average of the sale prices over the last ten years was used to adjust the figures according to the year of sale.

The fifth column was calculated using the method proposed by our critic. The consumer price indices supplied by Statistics Canada were applied to the sale prices; therefore, these figures represent the value as of the end of 1974 of all the last sale prices of these homes. Adjustments for improvements were not made. The sixth and final column was thought to be of some interest also. It provides the ages of the principal occupants.

Prejudice against new homebuyers

For demonstration purposes we will make the assumption that the forty-nine properties presented in the list represent a small village somewhere in Ontario. The municipal budget for one year is two hundred thousand dollars (\$200,000). This amount of money must be extracted from the tax base derived from the property assessments. A comparison of our critic's proposed assessments and market value assessments will be done.

Table 1, part 1, presents the two tax bases derived from adding up the assessments in column 3 and column 5. Part 2 of the table provides the two totals of all assessments on properties sold before 1970 and properties sold after 1969. Part 3 gives the percentage of the total tax base these two sums represent. The fact that a person purchased a property before 1970 will cause the overall taxes on that property to be lower. This is blatant prejudice; it discourages and actually hinders present-day homebuyers by penalizing them for their late entry into the market.

The argument that a person who buys a property today is any more capable of paying taxes based on the present market value than a person who bought a comparable property fifty years ago can be disproven in too many cases. There is a prejudice in this tax system aimed directly against young people who are buying their first home. They will be hit with a tax burden which is disproportionate to that of older people who purchased the same house or a similar house years before.

Two properties compared

This can be illustrated by comparing two properties, numbers 165 and 167. The houses are next door to each other and are assessed for exactly the same amount according to the market value assessment system. They are identical properties. Under our critic's proposed system, the fact that the owners of number 167 were old enough to be in the housing market in 1968 and decided to buy a house would place their assessment at \$40,413, while the young couple (ages 27 and 26) who purchased an identical home in 1974 are assessed at \$63,506. This difference cannot be justified in the face of the democratic ideals of our society,

which demand that all people receive equal treatment before the law. There should be no discrimination due to age. The young couple would have a strong case with which to challenge the tax system as proposed by our critic.

A negative market effect

Another possibility which becomes relevant is the following. If taxes were dependent on the assessment of a property according to the date of sale, properties which are selling in today's market would be extremely unappealing. This would be due to the simple fact that a new property selling for the first time and an older property for sale today would carry a higher tax burden than properties which sold in earlier years. This would cause a number of situations. First, the incentive to build would be curbed because the demand for the properties would be low. Second, people who wish to sell their homes today would be forced to settle for lower prices, or arrange a deal with the buyer which would satisfy them both. This would consist of registering a low sale price, and then receiving the difference between the actual sale price and the registered sale price in an "under-the-table" transaction. Once again, the proposed tax system has displayed a negative effect on the market and the participants.

The two mill rates presented in part 5 of Table I represent the municipal expenses (\$200,000) expressed as a portion of the two total tax bases. These are presented as X number of mills while in actual fact they represent X thousandths of the total. This means that \$200,000 represents .085 of \$884,041. Therefore, the tax rate will be 85 mills.

Table II applies these tax rates to four properties used in the study. The first two properties are identical. According to market value assessment, these two homeowners are assessed equally and therefore pay the same taxes. These assessments take into consideration only the objective

features and characteristics of the property and sale. According to the proposed assessment system, because the properties sold seven years apart, their assessments differ by \$47,112, and therefore their taxes differ by \$4,000. This is unfair and unjustified by any objective criteria.

The next two properties present an interesting case. Property number 100, which sold in 1964, is worth \$72,660 in today's market. The consumer price index values it at \$32,403. Property number 177, which sold in 1971, is worth \$15,570 less in today's market. Yet the fact that they sold seven years apart means that the owner of house number 100 pays \$800 less in taxes. Once again, the inequities of the proposed assessment base are evident.

Different growth rates for prices

The discrepancies that arise from using general money value indicators — such as the consumer price index — do so because the prices of different goods grow at different rates over time. We compared the consumer price index with the change in property prices on a year-by-year basis from 1964 to 1974. The same properties presented in the data list at the end of this paper were used for the study. Only properties which had sold more than once in the years 1964 to 1974 were used. A year-by-year growth rate in the prices was calculated; and when this was compared with the consumer price index, the two paths were very different. The path taken by property prices was much steeper and therefore grew at a much faster rate.

Therefore, if the section of the consumer price index relevant to property prices were extracted and used as an update factor, one would be dealing with changes in property prices over time. This would be a study of the dollar's value in the real estate market, as indicated by property prices which are assumed to represent market value. By using that portion of the consumer price index which is relevant to property prices, one is, in effect, doing a market analysis.

Table I

1. TOTAL TAX BASE DERIVED FROM:	Column 5 (CRITIC): \$2,361,698 Column 3 (ASSESSMENT): \$3,284,325
2. BREAKDOWN OF COLUMN 5:	Houses Sold Before 1970: \$ 884,041 Houses Sold After 1969: \$1,477,657
3. PERCENTAGE OF TAX PAID BY:	Houses Sold Before 1970: 37.4% Houses Sold After 1969: 62.6%
4. MUNICIPAL EXPENSES:	\$200,000
5. CALCULATED MILL RATE:	Column 5 (CRITIC): 85 Mills Column 3 (ASSESSMENT): 61 Mills

Table II

Tax rates applied to a random selection of properties		
PROPERTY NO.	ASSESSMENT*	TAX*
80	1. \$80,445	\$4,900
	2. 48,147	4,100
106	1. \$80,445	\$4,900
	2. 95,259	8,100
177	1. \$57,090	\$3,500
	2. 42,112	3,600
100	1. \$72,660	\$4,400
	2. 32,403	2,800

*First number (1) represents actual assessment and tax.

Second number (2) represents proposed assessment and tax.

Consensus of sale prices

The basic principles behind market value assessment are meant to reflect the decisions made by buyers and sellers. Market value is represented by a consensus of sale prices for similar properties. As long as an active market exists, where people are doing some amount of comparative shopping, similar properties will sell for similar prices. If this is true, market value assessments derived from market data will be equitable. This upholds the ideals of taxation which call for equal treatment of equals.

Column 4 represents an update of the sale prices derived from a study of the market trends of property prices. Individually, these assessments vary in equity, but taken as an average they differ only slightly from the average assessment update in column 3. Therefore, market value assessments reflect the purchasing power of the dollar in the real estate market.

The evidence of the study done on these properties indicates that market value assessment is a fair and equitable measure of property value. It is an objective look at sale price and its market components. By using market data for assessment purposes, the basic features of a democratic tax system as presented in legal and philosophical writings are fulfilled better than with any other method.

Taxation a municipal responsibility

Many of the arguments that our critic directs toward market value assessment are relevant to taxation instead.

The questions of tax breaks and rebates are not the concern of assessment. There is legislation to protect the very poor, the unfortunate who have recently suffered some mishap, and those whose taxes increase dramatically from one year to the next. The municipalities themselves, however, are responsible for the manner in which taxes are extracted from the assessed tax base. The Municipal Act of Ontario outlines the legal rights of the municipalities and the areas of appeal open to the ratepayers.

The area of taxation is one we cannot comment on. Many of the arguments about the current tax system appear to be valid. We can comment only on the method of assessment proposed by our critic as compared to Ontario's market value program. It seems logical to state that as long as the tax base is equitable and fair to the greatest number of people, there is little room for argument.

Conclusion

We cannot ignore the fact that a market approach to assessment is completely objective and treats equals as equals, based solely on the value of their property. This can cause some inequities in taxation due to variances in the real wealth of different property owners. The municipalities would seem to be the most capable level of government to deal with individual ratepayers, due to the fact that the mill rate is set and taxes are collected according to municipal budget needs.

In conclusion, our study would seem to indicate that, despite our critic's objections, market value assessment is still the best way of determining property values, and of achieving an equitable tax base for all ratepayers. □

FOOTNOTES

1. *Report of The Ontario Committee on Taxation, Volume I* (Queen's Printer, 1967), p. 4.
2. *Ibid.*
3. *Ibid.*, p. 8.

DATA LISTING

PROPERTY NO.	DATE AND AMOUNT OF LAST SALE	ASSESSMENT UPDATE	SALES UPDATE ('74)	CONSUMER PRICE UP-DATE ('74)	PRINCIPAL AGES OF OCCUPANTS
61	3/75 \$87,300	\$72,255	\$ 87,500	\$87,500	33
69	11/69 \$35,500	\$68,335	\$ 73,840	\$48,884	59/53
68	7/65 \$32,500	\$76,120	\$106,600	\$49,530	63/70
66	9/72 \$58,000	\$85,635	\$100,340	\$73,428	55
84	4/73 \$58,700	\$80,445	\$ 78,658	\$71,320	42
82	8/71 \$48,500	\$82,175	\$ 91,665	\$63,826	63
80	9/67 \$33,000	\$80,445	\$ 78,540	\$48,147	44/41
78	9/70 \$44,500	\$82,175	\$ 87,220	\$59,229	60/59
75	10/74 \$80,000	\$78,715	\$ 80,000	\$89,920	55
83	6/68 \$27,500	\$74,390	\$ 60,225	\$38,995	71
91	9/72 \$53,900	\$83,905	\$ 93,247	\$68,237	50/48
100	9/64 \$21,000	\$72,660	\$ 72,660	\$32,403	67
106	8/74 \$84,000	\$80,445	\$ 92,541	\$95,259	28
112	9/66 \$32,700	\$83,040	\$ 92,541	\$48,887	67/68
114	10/66 \$40,000	\$82,175	\$113,200	\$59,800	81
116	3/71 \$38,500	\$79,580	\$ 72,765	\$50,666	50
115	4/73 \$40,000	\$71,795	\$ 53,600	\$48,600	50
109	11/72 \$49,000	\$79,580	\$ 84,770	\$62,034	44
105	4/69 \$37,000	\$79,580	\$ 76,960	\$50,949	36
101	4/71 \$41,050	\$76,985	\$ 77,584	\$54,021	37
99	8/65 \$28,000	\$80,445	\$ 91,840	\$42,672	69/62
133	9/72 \$30,850	\$57,955	\$ 53,370	\$39,056	37/34
129	6/70 \$27,500	\$55,360	\$ 53,900	\$36,603	66/59
127	1/74 \$49,900	\$55,955	\$ 49,900	\$56,088	32/27
121	9/65 \$20,000	\$60,550	\$ 65,600	\$30,480	55
163	6/66 \$22,500	\$57,090	\$ 63,675	\$33,638	78/75
161	7/66 \$23,550	\$55,360	\$ 66,646	\$35,133	73/75
143	11/72 \$35,500	\$56,225	\$ 61,415	\$44,943	31/36
183	10/69 \$28,200	\$57,090	\$ 58,656	\$38,831	62/59
181	7/66 \$21,500	\$58,820	\$ 60,845	\$32,143	61
179	1/66 \$21,000	\$56,225	\$ 59,430	\$31,395	71/69
177	8/71 \$32,000	\$57,090	\$ 60,480	\$42,112	71/67
171	6/72 \$31,450	\$57,090	\$ 54,408	\$39,816	56
167	12/68 \$28,500	\$57,090	\$ 62,415	\$40,413	55/51
165	6/74 \$56,500	\$57,090	\$ 56,500	\$63,506	27/26
162	11/64 \$18,750	\$60,550	\$ 64,875	\$28,931	63/65
166	5/71 \$28,500	\$58,820	\$ 53,865	\$37,506	65/62
168	5/71 \$30,800	\$57,090	\$ 58,212	\$40,533	50/46
174	1/72 \$30,500	\$57,090	\$ 52,765	\$38,613	56/56
184	2/75 \$25,000	\$59,685	\$ 25,000	\$25,000	30/26
176	9/66 \$22,500	\$55,955	\$ 63,675	\$33,634	42
122	10/71 \$32,000	\$63,145	\$ 60,480	\$42,112	61/61
124	6/67 \$28,000	\$64,010	\$ 66,640	\$40,852	53
132	10/66 \$22,500	\$57,090	\$ 63,675	\$33,638	51/42
134	9/72 \$29,000	\$57,090	\$ 50,170	\$36,714	32/27
136	5/66 \$25,500	\$51,090	\$ 63,675	\$33,638	74/68
144	8/73 \$45,300	\$62,280	\$ 60,702	\$55,040	29
148	9/74 \$49,800	\$57,090	\$ 49,000	\$55,975	51
154	6/68 \$36,000	\$67,470	\$ 78,840	\$51,048	43

QUESTION & ANSWER

Mr. P. G. Gillis speaks on

- CONDOMINIUM ASSESSMENT
- THE EFFECT OF RENT CONTROL
- THE BASIS OF MARKET RENT

Q: What was the logic behind the recent change in legislation regarding the assessment of condominium apartments? Why was it necessary to make the change at this particular time? What problems have been encountered as a result?

A: The reason for the change with respect to the assessment of condominium apartments is simply this. It would appear that in Metropolitan Toronto, Hamilton and Ottawa, the assessment authorities – on the instructions of the municipal council of the day – felt that taxes on rented premises could be higher than taxes on single ownership premises, simply because the owner could claim the municipal taxes as an expense in determining his taxable income for income tax purposes. That being the case, the effective rate of taxation was roughly half of the municip-

pal impost. In other words, if the taxes were \$300 per suite in an apartment building, the owner was paying in effect only \$150 to the municipality, because he could claim the taxes for income tax purposes. He then should have passed on that saving on his income tax to his tenants by way of reduced rents, so that tenants would not be paying more taxes than single family residents. Now whether or not that is a valid approach is beside the point; in fact, it is happening in these areas. Many of the condominiums were converted high-rise apartments, and as soon as a person went out and bought an apartment, he no longer could claim municipal taxes as an expense against income. So his effective taxes went from \$150 a suite to \$300 a suite. This is coupled by the fact that having sold a house in most instances, condominium owners realized that while they had sold a house worth \$100,000 and bought an apartment worth \$50,000, the taxes on the apartment were higher than the taxes on the house. So they formed themselves into ratepayers' groups and brought the whole matter to a head. Their approach made sense, and so the law was changed to provide that all residential property held in single ownership and occupancy would be treated on the same basis. Therefore, the test which allows the comparison of similar properties in the vicinity must now compare condominiums with a single-family house.

Q: The daily newspapers recently reported that a recent court decision has resulted in refunds totalling millions of dollars to 30,000 condominium owners who have appealed their assessments since 1971. How will the municipalities pay for this?

A: The court decision merely ratified the agreements reached between condominium owners and the Province. Prior to the enactment of Bill 8 in November 1975, condominiums generally were assessed at a higher percentage of market value than single-family homes. This recent amendment to The Assessment Act corrected this inequity by assessing condominiums at the same ratio of market value as the single-family home. In the spirit of the amendment, the Province agreed to recommend to the courts that

those condominium owners who have appealed their assessments since 1971 be given refunds. These refunds amount to approximately \$3,500,000 in Metro Toronto, and another \$800,000 in the Niagara, Hamilton, and Halton-Peel regions. The municipalities will be required to refund these taxes. The burden will be spread over all the ratepayers in all the municipalities with condominiums. However, this will amount to only a very small increase in the mill rate. I should point out as well that it was the municipalities that originally assessed the condominiums at the higher ratio to market value by assessing them in the same manner as rental properties. The market for single-family housing has experienced a much steeper increase in values than have rental units. This has had the effect of decreasing the ratio of assessment to market value for single-family homes, whereas the ratio of residential rental properties has remained fairly stable. This has resulted in the rental properties – and until the passage of Bill 8, the condominiums – paying an increasingly larger share of the real property tax. This inequity was resolved for condominiums by the recent amendment, and will be resolved for residential rental properties in 1978 when the assessment rolls are returned at market value.

Q: How are the owners of high-rise apartments reacting to this?

A: They all have appealed their assessments this year, but I think this is because of rent controls rather than the condominium amendment. All the apartments in Toronto have appealed. They claim their expenses are going up by 12% annually, while they are allowed rent increases of only 8%. So they feel that one way they can get some of their money back is through reduced municipal taxation.

Q: So the rent controls have really obscured the condominium issue.

A: Yes, they have. Also, I think it is fair to say that rents are the best buy in Toronto and always have been, and that condominiums are the worst buy.

Q: Would you expand on that?

A: I'm looking at the readily available data based on the sales of apartment buildings. Apartment buildings are advertised for sale at seven times the gross annual rent. So if the gross annual rent for an apartment unit is \$3600, you are talking about \$22,000 or \$23,000 as the trading price of that apartment unit, if the building is sold as a rental building. That same apartment unit converted to a condominium, on the other hand, will sell for \$50,000 or \$60,000. So a \$300 - \$500 monthly payment in rent becomes a payment of \$500 - \$600 in mortgage, principal and taxes, on a mortgage of 35 years. That is exactly what happens. In the Toronto market, when condominiums sell, they seldom sell for less than \$50,000. And not only do you take on the mortgage payments, you also take on the responsibility of maintaining the corporation and buying certain municipal services. Clearly, there is something wrong somewhere. If a unit can sell for \$25,000 on the one hand, as part of a block of 100 units, and for double the price if sold individually, it clearly indicates that rents are the best buy in Toronto.

Q: What about this tendency to convert rental units to condominiums? Is there legislation to prevent or at least limit that option, or is it an open situation?

A: It is open to the extent that almost any complex owner can apply for conversion to condominiums. The decision then is made by the municipality as to whether or not the conversion will be allowed, first before the Committee of Adjustment, with the ultimate decision made by the municipal council. In the past several years, as condominiums have become a more desirable property option, the requests and



applications for conversion permits have increased substantially. I am not sure just what the municipal reaction has been, whether they have been approving the majority of requests or not. I suppose to some extent each application has to be treated on its own merits.

Q: It seems evitable that long-term rent controls will affect the market value of income-producing properties. How will this influence manifest itself? How can the assessor determine the effects of rent controls?

A: It is probably true that if rent controls continue on a long-term basis, they will have an adverse effect on certain kinds of properties. I don't think it is the government's intention to continue rent controls in perpetuity; hopefully they intend to solve, one way or another, the housing problem, and thus make rent controls unnecessary. Whether that is a pipe dream or not remains to be seen. From the point of view of valuing the properties, I don't think we can predetermine that, either. In New York, rent controls have had tremendous effects on apartment property values for several reasons. One is that owners didn't think they were getting an adequate return on their investment, and one of the ways that they could compensate was to let the property deteriorate so badly that it became a shum. Then it could be torn down and replaced with a new building that was exempt from controls for the first year while its rents were being established at a high level. I would hope that won't happen in Toronto; it is difficult to know at this point. We are being told by the larger property owners that they can get by for the first two or three years without too much adverse effect; after that they are not too sure. On the other hand, small apartment owners, particularly those who have had long-term tenants and who have kept their annual rent increases to a minimal level, say that they are finding themselves in trouble already. So it is very difficult to know the net effect of rent controls on property values at this point in time.

Q: We understand there is a tremendous increase in the number of income properties that are listed for sale at reduced prices. But it is difficult to sell them because

the mortgage companies are very hesitant to get into financing income properties right now.

A: Yes, I think that is so. But I think that may be only a short-term effect, because at the moment there is a lot of misapprehension and misunderstanding as to the long-term effects of rent controls. I am sure the first reaction of all these people is to tighten up the reins and look at the situation for awhile and then to analyze what the facts really are. It may well be that the fears that these people have now will go by the boards later, when they realize that reasonable allowances are being made and that rents are going to be allowed to increase at certain rates. I think that up to now, average rents have not risen at 8% to 10% a year across the broad spectrum of all the rental units that came on the market. If indeed that's true, then it may well be that everybody will go to at least the minimum allowable increases, which will result in a larger increase in rents than has been happening up to now.

Q: Recently, a controversy has developed over Section 17(3) of The Assessment Act, specifically involving apportionment in shopping centres. What is the Division's policy on the interpretation of this section? How should the assessor deal with conflicts over this issue?

A: The conflicts that have arisen so far with respect to Section 17(3) are few in number, simply because the section as it applies has only been effected in a few areas. On the other hand, in Metropolitan Toronto and Hamilton, the system of using rents to apportion properties has been in place for many years, perhaps not uniformly but certainly in large measure. The idea is to use a fair market rent and not a contract rent, and the immediate benefit of doing that is that it allows inclusion of the total property rather than just portions of it. It allows the tenants' improvements to be allocated to the appropriate tenants rather than spread among all the tenancies in the building. Third, and perhaps most important, it is based on fact. People do pay more rent for certain locations in a shopping centre; and if indeed what people pay for the use of a property is any indicator of its value — and everybody says it is — then auto-

matically the higher market rents reflect the fact that people are willing to pay more for certain locations in a shopping centre than for others. Often, smaller businessmen complain that their rents are higher than those paid by the "anchor" stores. But they were well aware of this when they entered into their rental agreements, and they were probably willing to pay higher rents for a number of reasons. First, they are paying for the locational advantage of a kiosk in the mall; it is located in the common public area, so they have only to house their wares and the customers will come to them. So they can get by with 150 square feet, while the competitor on a regular commercial street has to rent a whole store. So what's the difference between paying \$40 for 150 square feet or \$6.00 for 1,000 square feet? You are paying exactly the same annual rent. Secondly, because of the layout of these large regional shopping centres, many people walk by these small stores. The kiosk retailers have a captive audience in the building, so all they have to do is display their product. Thirdly, the large anchor stores do all the advertising. They advertise a sale over a weekend or a week, and they attract thousands of people to that shopping centre. The small retailer doesn't have to advertise anything. Customers are drawn by the anchor stores, but they also shop at the other stores, to the benefit of the small retailers. So there are all kinds of reasons why the anchor stores' rent may be lower than fair market rent and lower than the rent paid by the smaller stores and kiosks in the mall. All of them are justifiable and all of them are fair. The total value of the premises is an amalgam of all those rents, the sum of all the rents capitalized. There is no question about that. Therefore, the individual value that is attributed to any portion should be the fair market rent for that particular portion compared to the fair market rent of the total complex. This system of apportionment is easily administered, fair, and accurate. And while the complainants seem to say that they were not aware of it when they entered into their rental agreements, I doubt very much if the awareness of the fact would have affected in any way the rent they were willing to pay. *

Q: In the recent Budget Paper on property tax reform, one proposal dealing with taxation of farms would have them assessed and taxed at full market value, with the taxes paid by the Province. If the land changes use, the owner then will be liable for ten years' back taxes plus interest. A considerable amount of land, in urban fringe areas particularly, is owned by developers; at the moment it is being farmed, but the owners undoubtedly have plans for future development. Won't the proposed system actually cause the price of land to increase because the developer will pass any taxes incurred on to the consumer?

A: On the face of it, it would appear that these owners will indeed pass any increased costs along to the future purchasers of lots. However, much will depend on the timing, particularly if these owners develop the land earlier than was originally anticipated. I hope that these landowners will indeed be encouraged by the increased holding costs to do this. If that happens, then there will be a goodly supply of lots available and the price probably will be stabilized or perhaps reduced. It would seem that where land was purchased sometimes as much as ten, fifteen or twenty years ago, the increased prices from then to now can easily absorb any additional costs occasioned by this proposal. The proposal is based on a ten-year tax provision. Hopefully, these owners would not wish the holding costs to rise appreciably and they may endeavour to develop the land in the first or second year of the arrangement. Clearly, this proposal, if put into effect, will substantially increase the revenues of the municipalities that contain valuable land awaiting development. This will give municipalities more money to develop local programs. □

*Recently, a shopping centre committee was appointed to look at potential alternatives to Section 17(3). For more details, see Data Base in this issue.

QUESTION & ANSWER

PERFORMANCE APPRAISAL

In the Ministry of Revenue

Michael Morrison is a senior personnel administrator with the Ministry of Revenue. He received his B.A. in economics from York University.

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MICHAEL MORRISON
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Personnel Services Branch

In November of 1974 the Ministry's Personnel Services Branch undertook to conduct, on an ongoing basis, training sessions known as "Employee Performance Appraisal Workshops". As of December 1975, 43 workshops had been conducted throughout the province, involving 85% of the Ministry's 470 supervisory personnel. The Ministry has 3900 full-time staff, including 2200 employees in 56 regional or district offices.

Appraisal in past years

The expressed objectives of the workshops were to provide supervisory personnel at all levels of the organization with a knowledge of the purpose of performance appraisal, to introduce the participants to the revised "Performance Appraisal System" for use in the Ministry of Revenue, and to familiarize them with the methods to be used in the evaluation of an employee's work performance. The timing of the undertaking seemed to be appropriate, not only because there had been no formal training on performance appraisal for approximately four years, but also because the Assessment Division was about to implement the revised system. Sixty percent of the total Ministry staff works in the Assessment Division.

While there was no standard performance appraisal system in the Assessment Division, in 1970 some assessment commissioners had brought with them the appraisal forms and methods that they had used in the municipal setting. Often, however, appraisals were completed only in relation to unsatisfactory work performance or proposed disciplinary action.

In 1962 a formal performance appraisal system was adopted by the Ministry — then called the Treasury Department. A standard form entitled "Employee Progress Report" was used across the board, and raters were instructed to rate five factors — quality of work, organizing ability and initiative, leadership ability, attitude, and capacity for development — according to five codes ranging from A (excellent) to E (poor). In addition, a small space was provided at the bottom of the form for the rater's general comments and recommendations.

But it soon became apparent that universal forms applied to all employees were inadequate in such a diverse organization. Positions such as filing clerk and tax auditor involve radically different functions and levels of responsibility, and these differences should be reflected in the appraisal forms.

A departure from tradition

So in 1970 a departure from tradition was attempted. The work force was divided into three fundamental groups for performance appraisal purposes: general and clerical; research and specialist; and supervisory. Three different appraisal forms were developed, each containing evaluative factors appropriate to one of these categories. General and clerical staff were rated according to quality of work, quantity of work, effective use of working time, and three personal factors (cooperation, adaptability, and dependability). The research and specialist staff form utilized different evaluative factors, namely reliability of judgment, technical competence, organizing ability, communication

skills, and personal factors (capacity for development, adaptability, and initiative). Supervisory staff were rated according to the same factors, with the addition of ability to train and leadership ability. Each factor was rated on a scale of five, ranging from outstanding to unsatisfactory. A space was provided on each form for comments. A comprehensive sixteen-page manual, developed to explain the revised system, advised in part that "comments... may be given for each individual factor or may be general in nature. It is good managerial practice to show a comment, however brief, for each rating".

Most evaluators opted not to give comments. The few who did often employed standard phrases, such as "good quality of work", "quantity is satisfactory", and "is technically competent". Furthermore, scores of employees were credited with being "diligent and reliable workers" or having "a cheerful attitude toward work... gets along well with fellow workers and supervisor".

Subjective measurement

The 1970 system, while a vast improvement over the original, perpetuated one deficiency: subjective measurement. In many instances it was *people*, not performance, that received the rating. The rater was giving a personal opinion, at a given point in time, of what kind of *person* Joe was.

The current performance appraisal system attempts to shift the emphasis away from subjectivity and toward objectivity in measurement. Since it is performance that is being appraised, the emphasis has to be on what the person does, not what the person is. This is not to de-emphasize the importance of personality or attitudinal traits as, in fact, it is often the personal factors that indicate one's potential for growth. However, the evaluator's assessment of an employee's personal traits should not colour or influence the assessment of the other factors, or vice versa. A certain measure of objectivity can be achieved if the appraisal approach is tailored to the components and skills required of a particular job and the work performance of the individual is measured relative to pre-determined and carefully defined performance standards. At the workshops, potential evaluators were advised to be sure that employees are aware of these standards both at the time of hiring and at the start of each appraisal cycle.

An ongoing process

Also important is the concept of appraisal as an ongoing process, with feedback from supervisor to employee occurring on a regular, if not daily, basis. Supervisors should give feedback — negative or positive — when an event occurs, and record an appropriate comment. Putting off the whole job until the end of the appraisal period is not only time-consuming and confusing (unless the evaluator has a photographic memory), but also meaningless, because the opportunity to effect a change in undesirable behaviour or to reinforce positive behaviour has been lost.

Work performance of new employees is appraised formally twice within the probationary year (after three months and nine months of service). The timing is designed to ensure that the employee is aware of performance

strengths and weaknesses, and to enable management to determine whether or not the employee should be recommended for appointment to regular staff. Thereafter performance is appraised formally on an annual basis, or more frequently if appropriate (for example, at the conclusion of a major project requiring several months to complete).

Communication is two-way

The formal appraisal interview, which focuses initially on past performance, provides a good opportunity to capitalize on another key element of the appraisal effort: human resource development. The workshops stress the importance of two-way communication during the appraisal interview, and the following communication technique is suggested. Give the employee several days advance notice of the interview, so that he or she has ample time to conduct a self-appraisal of performance strengths and weaknesses. Then, during the actual interview, don't talk *at* the employee, but rather encourage him or her to express a personal perception of past actions and developmental needs. Finally, if appropriate, an agreement can be worked out between the employee and the evaluator, indicating what is expected in terms of short-term performance goals and what methods can be used to improve work performance. By giving the employee a voice in the planning process, the exercise ideally will lead to an increase in knowledge and skill, contribute to organizational goals, and test the employee's original self-appraisal.

The tangible benefits

Experience has shown that if properly applied, performance appraisal achieves a number of goals, including:

- a) helping to identify people who have potential for moving into higher-ranking jobs in the organization, Ministry, or public service (and, in the reverse, to identify the marginal or unsatisfactory performers);
- b) allowing people the opportunity to express their own views about the job and about the possibility of approaching some job responsibilities in a different manner;
- c) helping to protect an employee from being held back or treated unfairly (requiring the evaluator to justify the appraisal both to the employee and the evaluator's supervisor minimizes the chances of discrimination based on race, sex, personality conflicts, or the fear of losing good people because of favourable appraisals);
- d) allowing top management to make further judgments about the competence of the evaluator; and
- e) removing from people that state of uncertainty (and uncertainty itself can affect one's health, peace of mind, and work performance) arising from trying to figure out "what does the boss really think of my work performance"? □

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